

FX Insight

GBP: Asymmetric Risks on Meaningful Vote

Market Expects PM May's Deal to be Rejected

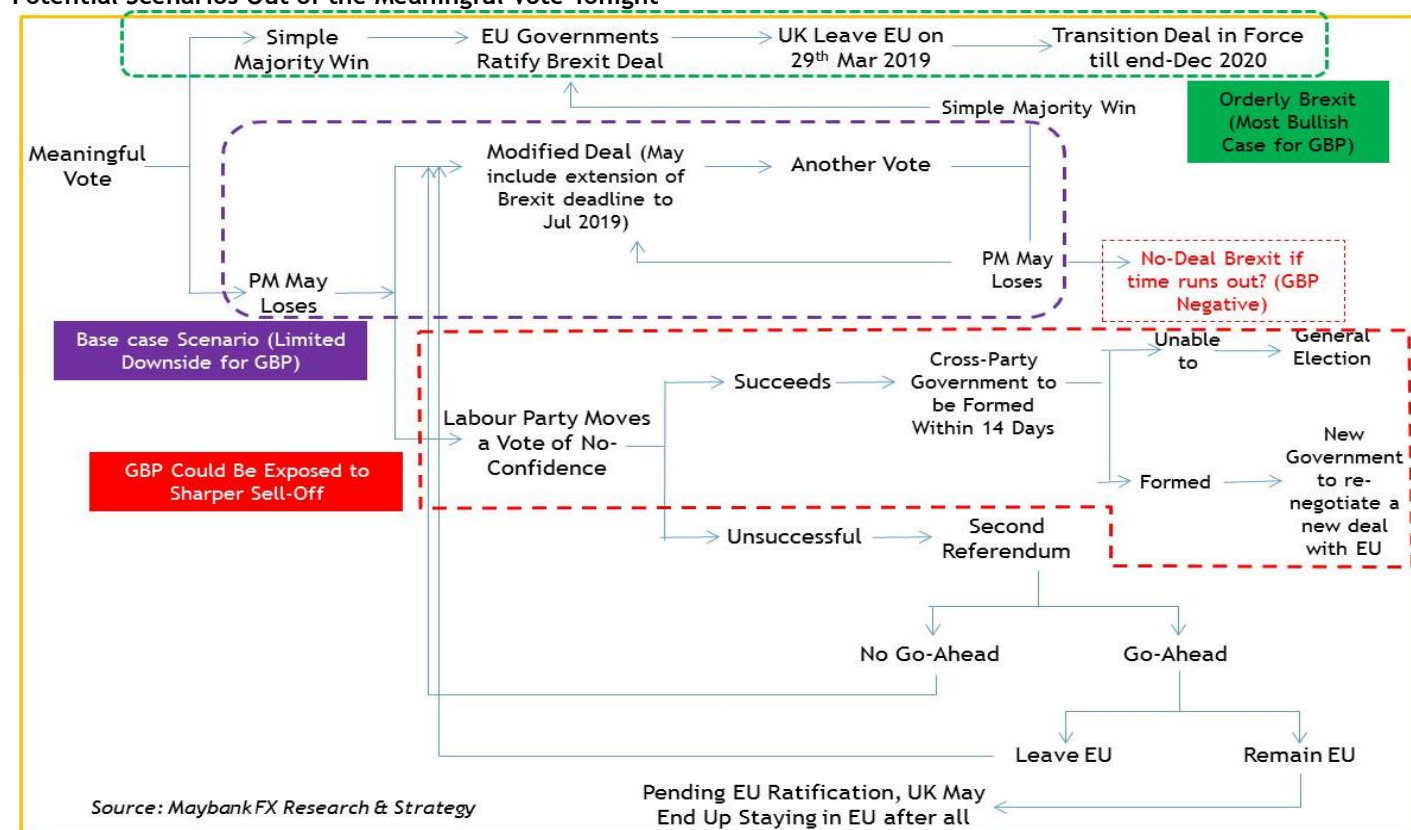
The "meaningful vote" on PM May's *Brexit* deal (as negotiated with the EU) is scheduled to take place today at 7pm (UK time or about 3am SG/KL time on 16th Jan), with results likely to come in at 8 - 9pm (UK time) or about 4 - 5am (SG/KL time on 16th Jan).

PM May needs a simple majority of 320 votes out of the 639 voting MPs from the House of Commons to ensure her deal passes. Failing which, various scenarios could emerge including (1) modified *Brexit* deal within 3 days; (2) Labour Party could table a motion of no confidence resulting in risk of new government or risk of General Election or even a second Referendum.

The most bullish case for GBP (possibly extending its rally towards 1.35) is that PM May secures a majority however markets' expectation is that PM May will not get a majority. Focus next on the margin of loss. A larger margin of loss above 200 votes may see knee-jerk sell-off (possibly towards 1.25) in GBP but a small margin of loss of less than 100 votes may see limited downside for GBP (support around 1.27) as market is already prepared to see PM May not securing a win. GBP current spot ref at 1.2850.

Impact on risk-proxy FX including AXJs is likely to be limited in the base-case scenario. JPY could see some upside pressure and AXJs may see marginal weakness if PM May loses by a larger than expected margin of loss (sentiment channel) but we do not expect the weakness to last.

Potential Scenarios Out of the Meaningful Vote Tonight



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Meaningful Vote on PM May's *Brexit* Deal Today

The “meaningful vote” on PM May's *Brexit* deal (as negotiated with the EU) is scheduled to take place today at 7pm (UK time or about 3am SG/KL time on 16th Jan). This was initially scheduled to be held on 11th Dec 2018 but was called off last minute as PM May wanted more time to address Members of Parliament's (MPs) concerns about the deal that was negotiated with EU.

PM May needs a simple majority of 320 votes out of the 639 voting MPs from the House of Commons to ensure her deal passes. All development will be broadcast live with results of the outcome known around 8 - 9 pm UK time (or 4 - 5 am SG/KL time on 16th Jan), if the vote takes place.

Odds against PM May's Deal

Based on local media reporting, about 100 Conservative party's 317 MPs, all 10 MPs of Conservative party's working ally Democratic Union Party (DUP) and a majority of the opposition Labour Party's 256 MPs are expected to object to PM May's deal. Based on the above, PM May does not have a simple majority.

And there are various outcomes that could happen on failure of the government to pass the meaningful vote:

- ***Scenario #1: Modified Brexit Deal and Subsequent Vote***

PM May is expected to re-negotiate, amend and bring back a modified deal for a second vote in the House of Commons no later than 3 days or 21st Jan 2019. Subsequent to-and-fro attempts are possible if there is no simple majority to pass it.

- ***Scenario #2: Labour Party to Table a Motion of No-Confidence***

While PM May is expected to bring back a modified deal under scenario 1 within 3 sitting days, it is likely that the Opposition Labour party could intervene under scenario 2. The Labour party could try to table a no-confidence motion in the government immediately after PM May loses her vote.

- ***Scenario #2a: If the Labour's Motion is Successful: Form a Government or Risk Triggering a General Election***

And if the Labour's motion is successful, a government needs to be formed within 14 days. However failure to form a government would trigger a General Election. Arithmetically the probability of a General Election happening is slim as that would require the Conservative party MPs and the DUP MPs to topple their existing government.

- ***Scenario #2b: If the Labour's Motion is Unsuccessful, Labour Party Could Push for A Second Referendum***

While this option carries a low probability and is least preferred by PM May, we do not rule out a second referendum. PM May's alternative option is a no-deal brexit but is lacking support as no-deal brexit offers least visibility on future trade relationship with EU. Moreover the European Court of Justice ruled that UK can unilaterally revoke its withdrawal notification under

Article 50 of the EU Treaty (as confirmed on 10th Dec 2018). AG Manuel Campos of the EU Court of Justice opined that the “possibility continues to exist” to revoke the Article 50 notice until the UK’s withdrawal agreement is formally concluded suggests that a no-deal brexit scenario may be out of the picture. A no-deal brexit scenario was previously feared as the worst case outcome for UK. Without this scenario, we argued that GBP negativity could be mitigated.

However If PM May Miraculously Win the Vote...

In this unlikely orderly Brexit outcome, GBP is expected to extend its recent strength as one uncertainty is out of the way. EU government will ratify and UK will leave the EU on 29th Mar 2019 (11 pm UK time) as planned. UK and EU will shift into a ‘transition’ phase until 31st Dec 2020. “Business will be as usual” while EU and UK attempt to reach new trade deal. This outcome represents an orderly exit and is least disruptive to GBP.

GBP Technical (Weekly): Doji - Represents Bull/Bear Indecision

GBP was last seen at 1.2850 levels. Bullish momentum on weekly and daily chart remains intact. But weekly candlestick (as of writing) saw a doji pattern - this represents bull and bear indecision. 21 DMA looks on track to cut 50 DMA to the upside - ST bullish signal but stochastics at overbought conditions raises caution. Sustained price action above 1.29 (100 DMA) is required for GBP to extend gains towards 1.30, 1.31 (200 DMA), 1.3410 levels. Support at 1.2810, 1.2760, 1.27 levels. Our bias remains to buy on dips.



Source: Bloomberg, Maybank FX Research & Strategy

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